AUDIT COMMITTEE MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN

MEETING – December 15, 2005

Present:

Eugene Canzano	Chairperson
Mike Moore	Audit Committee Member
Ron Vazquez	Audit Committee Member

Others Present:

Michael R. Wilkinson	Deputy City Attorney
Rody Abarro	Acting Assistant Retirement Plan Manager
Manoj Desai	Chief Accountant
Irene Colon	Recording Secretary

Chairman Canzano called the Audit Committee Meeting to order at 1:37 pm, and indicated a quorum of the Audit Committee was present.

Ron Vazquez, Committee Member, noted that the Audit Committee package included suggested questions proposed by staff and commended staff on putting together the evaluation form as well as the proposed questions. Chairman Eugene Canzano concurred.

After the question arose, Chairman Canzano stated he had no problem with the respondents being present in the audience during the course of the interviews. Mr. Wilkinson indicated he felt the question of the other respondents being present was at the "pleasure of the Board." Mr. Vazquez responded that he felt they should leave this decision to the auditing firms as to whether they want to remain in the audience during their competitors' presentations. Mr. Moore and Chairman Canzano agreed.

1. Approval of Audit Committee Minutes of December 7, 2005

Mr. Vazquez noted his name was misspelled on the first page. He added, on page 2, end of the "carryover" paragraph, Mr. Moore's name is also misspelled. Mr. Vazquez stated he had no other comments on the minutes. Mr. Moore stated he also had no changes to the minutes. In regards to the interviews, Mr. Moore asked Mr. Wilkinson if he could ask additional questions to the ones presented by staff. Mr. Wilkinson replied in the affirmative.

Mr. Moore moved adoption of the Audit Committee Minutes of December 7, 2005. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Vazquez and Moore
Nays: None

2. Interview of the Respondents to the Request for Proposals to Conduct Annual Audits of Financial Statements and Perform Related Advisory Services for the Water and Power Employees' Retirement Plan and Possible Selection of the Plan's Auditors

a) Macias Gini & Company LLP

Mr. James Godsey, CPA and Partner, and Mark Rodebaugh, CPA and Director of Corporate Services at Macias Gini & Company, approached the table. Chairman Canzano recognized the representatives from Macias Gini & Company.

Mr. Godsey stated they would be going over the information in their presentation materials, which include the background of the firm, their experience doing audits, and a recap of why they think Macias Gini and Company is a good choice. He explained that the firm's focus is the public sector. Mr. Godsey then introduced Mark Rodebaugh who went on to give his background and position in the firm.

Mr. Godsey closed with why Macias Gini and Company should be selected. He stated: their firm has the knowledge and understanding of the issues; they can assure a smooth transition; they understand the process and the difficulty of changing auditors, but they are experienced with this and have techniques in place to make sure this transition goes smoothly; they have a great deal of experience with large government and retirement systems and are a member of the BDO Alliance which is the fifth or sixth largest in the world; and they have access to all their resources and are nationally recognized and very involved in the audit process and have a continuous service philosophy.

Ron Vazquez asked Mr. Godsey to explain the statement he made regarding not changing auditors unless really necessary. Mr. Godsey replied, in the post-Enron world, there is a sense that you automatically want to change auditors every 3 – 5 years. He stated he did not feel this was a good idea, adding that he has seen more audit failures as a result of planned, intentional turnover of auditors because the auditors were never able to get a "real handle" on the organization. Mr. Godsey stated that although WPERP has a lot of unique items, he feels the Plan is not unbelievably complex. He explained that some organizations are so big and complex, if auditors are change every three years, one will "never really get down to the nitty-gritty." Mr. Godsey added, to some extent this exists with WPERP. He noted the Federal Government, GAO, has taken the position that an

RFP be issued every 5 to 7 years, making sure the firm is qualified, charges a reasonable price with the emphasis being on quality. Mr. Godsey continued that he does not feel it is in anyone's best interest to automatically change firms just to be able to say they've brought in a new firm.

Mr. Vazquez inquired what Sarbanes Oxley Act has done in terms of changes in their approach to auditing. Mr. Godsey, replied he did not believe Sarbanes Oxley has dramatically changed anything for their firm, since he believes they have always "pushed the envelope" to begin with. He added that many of the things Macias, Gini & Company has always done have now been confirmed as good ideas by Sarbanes Oxley. Mr. Vazquez asked if their company do audits of registered companies on the corporate side. Mr. Godsey replied in the affirmative. Mark Rodebaugh explained the tenets of Sarbanes Oxley only relate to companies that are registered with the SEC. He stated that what Sarbanes Oxley brought into effect is the whole area of corporate governance adding there are a number of different requirements that companies now have to document in the area of corporate governance. He added Sarbanes Oxley puts management in a situation where they have to attest to the accuracy of the financial data that went into their financial statement. Mr. Rodebaugh noted they are also required to have a well-documented internal control system adding that when you hear people talk about "Sarbanes Oxley readiness," the readiness means getting the internal controls well documented. He stated that once that is completed, management then has a basis to make the assertion they believe that the financial data in their financial statements are accurate. Mr. Rodenbaugh stated the accounting firm is then required under Sarbanes Oxley to come in and audit management's assertion and give a report, stating whether they do or don't agree.

Mr. Godsey added the biggest changes as a direct result of Sarbanes Oxley was that their profession is going through and adopting SAS 99, which is the responsibility for the detection of fraud. He stated Macias, Gini & Company has been very aggressive with their approach to doing, not only additional interviews, but additional test work and review of the underlying records to look for those fraud indicators and using technology to accomplish this.

Mr. Moore noted the Audit Committee is relatively new and is still looking at what type of Charter they want to take on given the spirit of Sarbanes Oxley. He asked what type of a role does Macias, Gini & Company recommend for this Committee and to what extent would they see it as part of their engagement to advise this Committee with respect to the Charter.

Mr. Godsey replied AICPA has recently come out with two documents, one for for-profits and one for government and what the Audit Committee can and should be doing. He felt the primary role is the interface with the auditors, getting assurance that the audit firm is qualified, they know what they are doing, and they are given the ability to do it, with no restrictions being placed upon them. Mr. Godsey explained, from his standpoint, he wants to have interface with the

Audit Committee to provide that level of assurance, but also gain insight as to any concerns they might have. He stated he wants to be able to talk to management, talk to people within various levels of the organization, because if there is fraud in an organization, that is how and where they are going to find it. Mr. Godsey pointed out that Sarbanes Oxley makes it very clear that at least one member of the audit committee has to be an outsider and has technical background in auditing, adding that is coming in government, but is not there yet.

Mark Rodebaugh stated that a few audit committees feel they do not have the background from a financial reporting perspective. He added one of the things that Sarbanes Oxley incorporated within the whole corporate governance area was the ability and recommendation that the audit committee would hire an independent advisor that had that requisite experience.

Ron Vazquez stated, with regard to transition, he noted these were probably costs that the company absorbed because their fees are about the same each year. He then asked a question regarding their schedule presented on page twenty-seven of their RFP. Mr. Vazquez noted that their RFP notes when field works begins and when it is completed and when copies of the report will be delivered. He asked if they are engaged, what will be their initial timeframe. Mr. Godsey replied, as soon as Macias Gini & Company was engaged and the contract signed, they would immediately have their initial planning meeting. He noted that this schedule presented in the RFP was a “worse case scenario” situation, not knowing exactly what the timeframes were going to be internally. Mr. Godsey continued, their ideal situation, noting that the Audit Committee has had the foresight to go out early on this audit process, gives them the opportunity to meet with management and the Committee and actually start their planning process when at that time they would lay everything out. He explained this audit would involve a lot of the interim understanding of internal controls and testing of processes, which could all be completed in the March, April, May timeframe so the audit is then geared for a very quick close. Mr. Godsey stated that as soon as the books were closed, if available, they would like to do the year-end fieldwork in the August timeframe and get the financial statements out in early September. Mr. Rodebaugh stated that Macias Gini & Company wanted to demonstrate in their presentation that they have the capacity to meet the Plan’s deadline.

Mr. Vazquez asked for information on their fee schedule and their estimate on the number of hours, inquiring how they came up with the schedule for the Plan. Mr. Godsey replied the fee is a maximum fee, unless there was a significant scope change, or if they found fraud and they would have to go significantly beyond what they would normally expect. He added page 39 actually breaks it out by major categories, e.g., the planning phases, the fieldwork phase and the report phase by levels. Mr. Godsey explained internally they developed a detailed audit program where each one of the tasks is broken down by the number of hours to perform the task based on their experience with other similar retirement systems, taking those actuals from prior years to summarize that in this report.

Eugene Canzano noted they do have the ability to produce a 10% MBE. Mr. Godsey replied in the affirmative adding they have actually contracted an agreement with Q Accountancy, a local, high quality MBE firm, to make a supervising senior level staff person available to Macias Gini & Company.

Michael Moore inquired, in terms of allocation and resources, the breakdown of percentage of resources that go towards the membership or benefits side versus the investment side. Mr. Godsey replied that these were, in fact, the two key areas, adding that it depends on the nature of the Plan's investments. He stated that in his initial reading of a pretty conservative investment policy, the breakdown would be 60-40, maybe 50-50, but something in this area between those two major categories.

Mr. Moore noted that Macias Gini & Company was the sole, prime contractor with respect to CALSTERS. He stated a couple of other firms have stated that they had been qualified or approved to do audit work for CALSTERS asking what the distinction is. Mr. Godsey stated that he was not 100% sure of what these other companies meant by "approved," but commented that his company has done both. He stated that initially they were the sub-contractor under a big 4 or 5 at the time, and has now, subsequently, been hired as the primary auditor for CALSTERS. Mr. Rodebaugh interjected that Macias Gini & Company has been contacted by CALPERS to see if they would be interested in submitting a proposal in 2007. He stated that CALPERS had looked at their qualifications and felt they were now qualified to receive a proposal adding that, heretofore, they had only sent out proposals to the "Big 4." Mr. Rodebaugh explained that from an economics standpoint there is more money to be made from consulting with CALPERS than auditing CALPERS. Mr. Rodebaugh noted the "Big 4" do not want to be in the game anymore, so they are dropping down to the next tier.

Mr. Vazquez noted Mr. Godsey had mentioned the potential impact on the defined benefits plan if there is a change in the law that would allow future employees to be covered under a different type of plan and asked what he felt the significant adverse impacts would have on the defined benefit plan going forward. He asked if there has been anything written regarding this. Mr. Godsey noted that this had been insinuated a few times, but stated he had not seen any good description of the exact repercussions.

Mr. Canzano thanked the representatives of Macias Gini & Company and they left the table.

b) Grobstein, Horwath & Company LLP

Mr. Jack Georger, Jr., CPA, Partner and Tanya Porche of Grobstein, Horwath & Company and Tom Kelly, Director, and Donna Nakashima, CPA, of Thompson, Cobb, Brazilio & Associations approached the table. Chairman Canzano recognized the representatives from both firms.

Mr. Georger stated that Grobstein and Horwath are partnering with Thompson, Cobb, Bazilio, a minority firm in Washington D.C. but not a minority firm in California. He stated Ms. Nakashima is a minority-owned consultant who will be working with them. Mr. Georger and then Mr. Kelly gave a background on their respective firms.

Mr. Georger proceeded to give an overview of their firm's audit approach stating they would start out with planning and go into the Plan's internal control documentation and testing. He stated WPERP is not an A133, nor a Sarbanes Oxley audit, adding the auditors are not required to test internal controls, all they need do is document it. Mr. Georger stated his firm is going to take a risk-based approach wherein they actually test the controls and try to rely on the controls from an opinion standpoint. He stated his firm wants WPERP to be comfortable that they have certain controls in place and the Plan will still be able to meets its financial reporting requirements after their firm is gone. Mr. Georger informed the Committee, as of last week, the AICPA adopted ten new audit standards and also have an eleventh, which is the largest change in the AICPA's audit standards in the last twenty years. He stated they are bringing the conversions over from pre-CAOB(?) and Sarbanes Oxley and ten of those standards they have adopted will require the Plan to have this type of risk-based audit for at least the year 2007 audit. He stated his company will look to early implement this standard so it is not just an option because eventually whoever audits WPERP will have to come into this framework. Mr. Georger continued with his presentation on his company's audit approach and experience. He closed, stating that because of the number of partners they have, the Plan will get more personal service with their firm than it would normally see with other firms. Mr. Kelley added, to the extent that TCBA will provide auditing staff, they do not have junior level auditors -- all their auditors are senior or manager level personnel. He noted this is dictated by the size of their firm, particularly their California office, which has a staff of a little over 20 and not having the infrastructure to provide the training and guidance necessary so they rarely if ever hire staff directly out of college. Mr. Kelly stated they usually hire people who already have four to five year's experience.

Ron Vazquez noted the proposed audit fees shown on page 20, show the number of hours they think are needed to spend on the audit is significantly lower than any of the other proposals they have received – 220 hours. He inquired how this compares with some of their larger clients, the number of hours to spend, etc. Mr. Georger stated that when looking at the hours, it was a risk-based approach, fee-wise; it is a little higher on the partner level since it will be the partner approach. He continued, San Diego Retirement Association was comparable in hours and was done with two staff people and himself. The Fairfax County Retirement Systems were all about the same number of hours. The key here is that they are going to have all senior people working so they will not have the down time you would have with junior accountants. Mr. Georger noted it is structured so that if it takes the firm 1,000 hours, that is their issue – a fee is a fee. The hours for San Diego were 1,000 hours of which 500 were on the pension, but that included a lot of forensic and research work.

Michael Moore referred to page 6 of their RFP, which speaks to their engagement team and asked them to amplify on the role of the tax partner to be involved in the team. Mr. Georger replied that it would be a minimal role but added that as the marketplace changes significantly as it did in 1999, and your investment returns have dropped significantly, you are looking for alternatives for higher rates of returns. He noted there has been a trend to go into alternative investments and foreign investments and if there are issues where your investment people are looking to go outside the country, which do have tax implications to the plan, they have people who are capable of handling those issues. He stated one of the advantages their company has is that they just don't specialize in government work; they do have a significant tax department that does international work.

Mr. Moore referred to page 18 where it was noted Grobstein, Horwath & Company stated that the additional commitment by the partner for the first year is an accommodation and had not been calculated in the fee proposal and also noted they stated the preliminary estimate of additional time commitment by the Plan staff is between 15 and 20 percent. He inquired if this was primarily related to the first year. Mr. Georger replied in the affirmative adding that this would be their concession for the first year of the engagement. Mr. Moore asked if they believed it would take that much of Plan staff's time to work with his firm to provide the materials, etc. that they would need. Mr. Georger replied that he believes that for the first year, it would be 15 to 20% more than Plan staff is used to on their previous year's audits. He noted that WPERP has had a firm that has done this for three years so for the second and third years, confirmation documentation was just reduplicated whereas they would have to start fresh.

Mr. Vazquez verified they were absorbing the transitional costs. Mr. Georger concurred. Mr. Vazquez inquired what were the results of their last peer review performed and who performed it. He noted there was a mention in the RFP regarding TCBA, but not Grobstein Horwath and Company. Mr. Georger responded it has to be done every three years, but believes their review is only a year old, noting they have a partial one every year. He explained they also practice in the SEC field so they are PCAOB(?) registered as opposed to being just a GASB firm. Mr. Georger indicated that he could provide the Committee with the most recent peer review letter if they would like. Mr. Vazquez responded in the affirmative.

Mr. Moore asked Mr. Georger to speak to the role their firm sees the auditor playing with respect to the Audit Committee. Mr. Georger replied that the Audit Committee is a valuable asset to the organization. He stated he feels the auditors should report directly to the Audit Committee as opposed to management because the Audit Committee consists of a group of independent people who volunteer to act as a fiduciary over the financial records of the Plan. Mr. Georger stated while management is paid to be somewhat fiduciary, they are compensated and there are certain aspects of their roles that may make them participants in fraudulent situations, or the breakdown in internal controls and things of that nature. He noted reporting to them may not get the effective response as reporting to an Audit Committee. Mr. Geoger stated under Sarbanes Oxley the auditor is hired by the Audit Committee, the auditor reports to the Audit Committee and, in essence, works for the Audit Committee.

Mr. Canzano noted the firm’s 50% WBE, which is where Ms. Nakashima’s firm comes in. Mr. Georger stated that TCBA is a certified minority firm in the District of Columbia, Virginia and Maryland; but unfortunately, the revenues are too high to be certified in California.

Mr. Vazquez stated the Audit Committee is interviewing four firms today. He asked Mr. Georger to give the Audit Committee some reasons why they should select their firm. Mr. Georger replied that their firm brings the skill level, specifically, his knowledge and background in auditing similar size, if not larger, pension funds. He added that he is currently involved with the policy makers in the GASB field so they stay on the edge through the GFOA and other relationships he has, so he feels they provide that scope technically. Mr. Georger added that, where they don’t have that scope, TCBA has the backup for that information and are a significant provider of state and local experience. He stated the way they are designed from a standpoint of partner participation, the Plan will get the service from a partner level that it may not get from their competitors. Mr. Georger emphasized that he is always accessible, both to management and the Audit Committee for new issues or new GASB implementation and items of that nature. He added that, in this market, he feels the key is responsiveness, stating that in the scope of their fee, they will not be non-responsive, and will give the service the Plan warrants.

Mr. Canzano ascertained that Ms. Porshe is based out of the Sherman Oaks office. He asked for similar audits she performed while with Miller, Kaplan. Ms. Porshe responded (could not understand the name of the firm) Pension and Health Plans is about $3 billion, which is comparable to WPERP. Ms. Porche stated she started there as a staff person and rose all the way up to supervisor when she left, so she’s been in audit for 5 – 6 years.

Mr. Georger inquired if the Plan would be implementing GASB 40, which is under investment risk, noting the last audit did not reflect that and should be implemented this year. He stated if they get chosen they would not have to deal with that in the future years. In response to Mr. Georger’s question, Mr. Vazquez stated that GASB 45 has been implemented by the Department of Water and Power, which has the liability and the funding on the Department’s books as opposed to the Retirement Plan. He added the Retirement Plan members are covered by the Department, which is responsible for the post retirement health care obligation for all retirees.

Mr. Canzano thanked the representatives from Thompson, Cobb, Brazilio & Association and they left the table.

c) Simpson & Simpson

Mr. Bernard Simpson, CPA, and Partner and Ms. Grace Yuen, CPA, of Simpson & Simpson approached the table. Mr. Canzano acknowledged the representatives from Simpson & Simpson.

Mr. Simpson gave a brief presentation on the salient points of their proposal. He gave an overview of their firm, their audit objectives, their audit approach to WPERP's audit requirements, and their organizational chart that includes staff members involved in the audit. Mr. Simpson stated they have served the government and non-profit areas since 1976, adding they have significant prior experience in auditing various types of pension and retirement plans and have served the WPERP for several years and gave examples of other large pension plans they audit. He noted Simpson & Simpson is a local CPA firm and have significant resources available to service the Plan's needs with more than 50 professional auditors that will be able to respond to any requirements. Mr. Simpson stated they are a full-service CPA firm providing not only auditing services, but tax and various management/administrative services to their clients. Mr. Simpson went on to explain their audit approach going over various items in their RFP.

Mr. Vazquez noted that Simpson & Simpson has been the auditors for WPERP for over fifteen years. He inquired if there were many findings or recommendations on the management audit done for the Plan last year. Ms. Yuen replied that in the past three years there has been no material weakness or reportable condition and no management letter item. She stated before that time, there were some minor issues that were mentioned in the management letter. Mr. Vazquez stated, going forward, he would like to see a management letter whether or not there are any weaknesses noted. Ms. Yuen responded that they can do a "no material weakness" letter. Mr. Vazquez asked if Simpson & Simpson sees any conflicts of interest being the auditor for the City and the auditor for the Department and the Retirement Plan. Mr. Simpson replied in the negative, adding not according to any of the standards that they must comply with. He added that he could see no area where there would be a conflict with the funding of the Plan by the Department that would impact their independence. Mr. Simpson stated the work they do for the Department as a subcontractor is primarily in the area of single audit. He explained all major decisions related to the Department audit is done by KPMG.

Mr. Vazquez inquired if Simpson & Simpson meets the insurance requirements contained in the RFP. Mr. Simpson responded in the negative adding the RFP requires Professional Liability Insurance in the amount of $10 million. He added, their insurance provider informed them that this insurance would cost as much as the audit fee. Mr. Simpson informed the Board currently Simpson & Simpson carries Professional Liability in the amount of $2 million per occurrence. Mr.

Vazquez inquired if their firm has carried these limits since they have been the Plan's auditors. Mr. Simpson replied in the affirmative, adding that the City of Los Angeles only requires $1 million.

Mr. Moore asked Mr. Simpson what role he sees for his firm in working with an audit committee and the role of the Audit Committee with his firm. Mr. Simpson responded that he believes that the Audit Committee should be the organization within the Plan to select the auditors, the auditors should be reporting to the Audit Committee, and anything that comes to their attention that needs to be reported should be reported to the Audit Committee. He continued, with respect to Sarbanes Oxley, one of the major provisions is that there be an active, competent audit committee and that this committee hire the auditors and have the relationship with the auditors. Mr. Simpson stated his firms agrees and encourages these provisions. He added, other elements that is required by public companies is the management of these organizations to certify their own internal control systems and that the CPA firms certify their certification but he does not see this as being applicable to WPERP. He believes the Plan is on the right track to look at the elements of Sarbanes Oxley that should be implemented and stated that those they believe the Plan should take a good look at will be presented to the Committee.

Mr. Moore stated that he does not know whether Simpson & Simpson is seeing this from other clients since most of their clients are other government entities, but one of the aspects of Sarbanes Oxley is the recommendation that auditors be turned over every five years. He asked what their reaction is to this and whether they had to deal with this in regards to their other clients in the public sector. Mr. Simpson noted most of their clients are governmental entities and non-profit organizations so Sarbanes Oxley does not apply. He expressed that Simpson & Simpson has not had any issues with this, adding most of their contracts with their clients are three to five year contracts noting they rotate staff and partners. He gave as an example that in this particular year this would be the first time that Beverly Simpson will be involved in this audit because, as a small firm, they cannot put new people on the audit every time, but can rotate them in and out so that they can get a fresh look. Mr. Simpson commented that he does not believe Sarbanes Oxley requires to rotate auditors every five years, but requires to do a partner rotation, because in large, public companies sometimes it takes five years to really "get your arms around" what is happening at those companies and to do a quick rotation of auditors would not be beneficial and not accomplish what should be accomplished.

Mr. Canzano noted that Simpson & Simpson does a good job in bringing in people with some experience and then graduating them. He asked for clarification of Ms. Yuen's experience. Ms. Yuen responded she worked with the private sector for about two to three years before joining Simpson & Simpson, has been with the firm for over 15 years and stated it has been a very fulfilling experience. She added that she worked on a lot of joint audits with the "Big 5" at that time where she also gained a lot of experience. Ms. Yuen stated she received her CPA license while with Simpson & Simpson. Mr. Simpson commented that they hire most of their staff right out of college, try to identify people in the upper 25% of their class and also hire people who have industry experience and have already passed the CPA exam. Mr. Canzano asked for clarification on the audit work that Simpson & Simpson does for the City of Los Angeles. Mr. Simpson explained that they are the primary auditors for the City itself and they do their Cafra report stating they currently have ten staff people at the City. He noted Simpson & Simpson, on the average, usually have 8 to 10 people at the City about eight months a year. He explained the other pension plans they audit are Southern California Edison and MTA. Mr. Canzano inquired as to the relative sizes of those pension plans. Ms.Yuen responded SCE's net asset for their defined benefits plan is about $2.2 billion and MTA's is about $600 million, adding their plan is not as established as WPERP.

Mr. Vazquez asked if Simpson & Simpson is planning to sub-contract out to other small business enterprises. Mr. Simpson responded, when they did the outreach and set the criteria, the responding firms did not have any of the type of experience that they had solicited for.

Mr. Canzano thanked the representatives from Simpson & Simpson and they left the table.

Mr. Vazquez and Mr. Moore expressed their concern over the insurance requirements. Mr. Moore stated that he noticed this same issue in another RFP that had been issued. Mr. Abarro clarified that it was the RFP for Computer Systems for the Retirement Office. Mr. Moore continued that he was troubled by the fact that a number of the firms do not appear to have insurance in place now that comes close to the $10 million. It was clarified by Mr. Vazquez that the only company that comes close is Simpson & Simpson with $2 million, which they have had since the fifteen years they have been the Plan's auditors. He added that he was surprised that we are going out with an RFP with the insurance requirements as high as they are. Mr. Vazquez inquired if this insurance requirement precludes us from engaging a firm. Mr. Moore stated that this was the same question he asked the previous week, adding that he did not catch this requirement in the Audit RFP, but did note it in the RFP for the Information Systems approach. Mr. Moore stated that he agreed with Mr. Vazquez, and this is something the Committee needs to deal with now rather than further into the process, expressing he was quite troubled by this. He added that the Board is going to have to be much more careful now as the Board looks at the "boiler plate" additions to the RFPs to make sure the insurance requirements are not out of line because it creates a lot of problems after the fact and it puts the Board in a position where they preclude firms from even bidding on the RFP. Mr. Canzano inquired if Grobstein, Horwath & Company is the only firm that meets the $10 million requirements adding he feels the Miller, Kaplan note does not count as they just indicated compliance, but did not provide proof and what they did say is their per occurrence requirements are for business and its industry which is a veiled way of saying they do not have the $10 million. Mr. Canzano noted Macias has $5 million per claim and Simpson & Simpson is $2 million per claim. Mr. Moore asked for Mike Wilkinson's opinion. He replied that the Committee's decision should be applied across the board stating that since this is a policy issue he would not have much input on the level of insurance outside of a range that could be defended as reasonable in exercising the Board's fiduciary duty.

Mr. Moore asked if it was appropriate to come to a decision now before they go any further in the selection process or can this be decided afterwards recognizing that this decision will be for all firms. Mr. Wilkinson applied in the affirmative. Ron Vazquez noted, in this perspective, to the extent that there was any concern with insurance requirements and compliance with the recommended levels in the RFP, that this should have been addressed prior to setting up interviews. Mr. Wilkinson replied, on further reflection, if the Committee is going to be lowering the insurance requirements, perhaps the more prudent course would be to see if other firms would have submitted RFPs with these new requirements. Mr. Abarro replied that staff would have no way of knowing this since they advertised for Request for Proposals through three publications and just accepted the proposals from whomever replied and could not know what firms may have been able to respond to the Plan's RFP had the insurance limits been lowered. Mr. Wilkinson responded that the proper course would be reopen the RFP for a short time to other firms, even though this may delay the process. Mr. Vazquez clarified that this RFP was advertised only, and no RFPs were sent to any particular firms. Mr. Moore asked if the advertisement included the insurance requirements. Mr. Abarro replied in the negative. Mr. Wilkinson asked at what level would the respondents be aware of the insurance requirements. Mr. Abarro replied the advertisement directs them to the Plan's website and there they can read through the RFP where it spells out the insurance requirements. Mr. Vazquez asked if the RFP states that these are minimum requirements. Mr. Abarro replied in the affirmative. Manoj Desai stated that these insurance requirements came from the Risk Manager. Mr. Wilkinson expressed that he wants to determine the earliest level someone would make a decision not to go forward with submitting an RFP based on the mandatory insurance requirements. Mr. Abarro replied, at the point that they look at the website and read the RFP. Mr. Canzano stated that three out of four of the respondents are not in compliance with the minimum requirements and responded despite the insurance requirements. Mr. Wilkinson stated that at this point the Committee may want to change the insurance requirements and re-advertise. He inquired as to where they were advertised. Mr. Abarro replied, *The Wall Street Journal, Pension and Investment Magazine* and *The Los Angeles Times.* Mr. Wilkinson stated by re-advertising, it would eliminate any possible criticism that the standards were changed and someone was left out. Mr. Vazquez noted that the engagement would be for the fiscal year ending June 30, 2006, so it is not critical that a decision be made soon. He expressed that he would rather be on the safe side and go back out and re-advertise with the lowered insurance requirements and address the change on the website. He also stated he wants to recommend to the Retirement Board that, in the future, they do not go with an RFP that has any more stringent insurance requirements for any service than they have had in the past, at least until it is brought to the Retirement Board for consideration. Mr. Canzano asked if the $10 million limit is in line with previous RFPs. Mr. Abarro replied in the negative adding, in his opinion, the requirements are too high. Mr. Vazquez concurred stating that Simpson & Simpson has been their auditors for fifteen years and has never had more than $2 million limits. Mr. Moore added that Simpson & Simpson also pointed out that the increased limits would eliminate all profits.

Ron Vazquez moved that they follow through with the interview of the remaining firm and do a tentative rating but do not finalize their decision until they re-advertise the RFP with the reduced insurance limits and to see if they get any additional responses. They can then consider whether they want to interview them and then confer based on all the interviews completed and only then make a final selection. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Canzano, Vazquez, and Moore

Nays: None

Mr. Wilkinson stated they need to make sure that the new requirements are communicated to today's respondents. Mr. Canzano stated that a letter would be sent.

Ron Vazquez amended his previous motion to add to notify the four respondents interviewed at the December 15, 2005, Audit Committee Meeting of the new minimum insurance requirements of $2 million and extending the deadline with no need for them to resubmit their proposal or re-interview.

Mr. Wilkinson stated that, with the new time deadline, the four proposers be offered a chance to add or amend the RFP they have already submitted. Mr. Canzano stated this can be incorporated into the letter that will be sent.

Mr. Moore wanted to add to Mr. Vazquez' previous statement regarding making sure future RFPs do not carry such stringent insurance requirements without bringing them before the Board. He expressed that, as part of the package, there should always be a simple, one-page document that denotes the recommended insurance from the Risk Manager and also any staff comments in terms of how they compare with others in the industry such as LACERS so they really highlight for the Board whether or not the requirements are out of line. Mr. Abarro noted they are facing the same situation with the RFP for the computer system but he feels there is still time to make changes since they are still advertising. Mr. Vazquez commented that this can be addressed at the next Board Meeting. Mr. Abarro noted he would send a draft to the Audit Committee before sending out the final letter.

d) Miller, Kaplan, Arase & Co., LLP

Doug Waite, CPA and Partner, Jenny Bolsky, CPA and Partner, and Karl Janich, CPA, from Miller, Kaplan, Arase & Co. approached the table. Mr. Canzano recognized the representatives from Miller, Kaplan, Arase & Co.

Mr. Waite gave the Committee some background on the firm noting they are located in the North Hollywood area. He stated they are the sixth largest firm in Southern California as ranked by the L.A. Business journal with a staff of approximately 130 people. Mr. Waite stated in their recent peer review, which was done in August 2005, they received an unmodified opinion which is the highest form that the reviewing firm gives. Mr. Vazquez asked the name of the reviewing firm. Mr. Waite responded, Possel, Waite & Netterbiel, and they are located in Louisana, the same firm which did their 2002 review. Mr. Waite noted their firm utilizes the two-partner approach.

Jenny Bolsky stated their firm has been in existence for almost fifty years, and for forty of those years have been auditing employee benefit plans which has become one of their significant areas of specialty with over 400 employee benefit plans on their client list. She gave an overview of their experience and qualifications in the audit of employee benefit plans.

Karl Janich went over the firm's procedures for completing their audits. Mr. Vazquez asked for clarification on when they would start if selected. Mr. Janich replied, as soon as they are able.

Michael Moore noted they have experience in both the Taft-Hartley benefits area as well as the government such as the City of Los Angeles. He inquired what the differences were between the two in terms of the role of the auditor. Mr. Waite replied very little differences noting in connection with the risks of Plans they might have been a little "out front" of some of the GASB pronouncements and they had been working on some of these pronouncements a few years earlier. Mr. Moore noted that in the write-up, the focus seemed to be on the membership contribution benefits side and inquired what percentage of their firm's resources did they apply to that side versus the investment side. Mr. Waite replied the benefits cycle testing part of it represents 30 to 40% of the audit work, investments another 30 to 40% on a pension plan this size and the rest would be the preparation of the financial statement and gathering all the actuarial data.

Mr. Canzano noted on page eight of their RFP there are a number of items that would be discussed upon selection but wanted more information on their financial status and the size of Miller, Kaplan. He also asked for clarification on where they were headquartered. Mr. Waite replied their headquarters are in Los Angeles with an office of about 12 in San Francisco and a small office in Las Vegas. Mr. Waite gave an overview on the size stating their revenues for this year are around $16 to $17 million dollars noting that as a partnership there is not a lot to their balance sheet. He added, in regards to insurance, they have $5 million per claim and $10 million per aggregate, which is standard in the industry for errors and omissions.

Mr. Vazquez asked about their outreach to minority and women-owned firms. Mr. Waite stated they have not done this in the past and are not familiar enough with the firms to know which ones to approach noting this has never been an issue with any of their current clients. Mr. Vazquez noted they audit over 400 employee benefit plans asking for clarification of the type of plans. Mr. Waite replied that the majority are Taft-Hartley type plans and of that amount, 150 to 200 are actual pension plans, the rest being health and welfare plans and training and apprentice plan stating they do a lot of corporate 401K type plans which make up a big part of it. Mr. Vazquez asked for their experience with plans of WPERP's size asking for comparable clients. Mr. Waite replied Police and Fire ($13 billion), and the motion picture industry ($40 billion), adding that a lot of the big Taft-Hartley plans are well over $1 billion. Mr. Vazquez asked for information regarding their proposed schedule of professional fees and the minimal number of partner hours that is devoted to the audit versus their peers. Mr. Waite stated that this is typical of a job this size stating that in the first year of doing any type of audit the partner hours would exceed that, but because they do so much of this, their high level senior managers do this work exclusively and are comparable to any partner in terms of experience, as opposed to any other firm that has only a portion of their practice devoted to employee benefit plans.

Mr. Moore stated that the Audit Committee has been in place for about a year and have not yet agreed on a detailed charter and as to the role they want to play, but noted that one of the things they want to do is comply with at least the spirit of Sarbanes Oxley in terms of a relatively assertive audit committee. He asked Mr. Waite to speak to the role his firm sees in terms of the audit vis-à-vis the Audit Committee and the role they and the auditor might play in the future. Mr. Waite stated that Sarbanes Oxley places much more responsibility on the Plan's management and how they use the auditor to satisfy a lot of those requirements. He added he would look at the type of work they do in audits now and try to think in terms of what more they could do in terms of giving their clients some type of added assurance above what they already give them. Mr. Waite added that he does not know if there really is a definitive answer from the auditor's standpoint. He stated that he feels that their firm does a very complete job adding in their review of internal controls because of the experience they have with other trust funds they are doing a "best practices" review and also when looking at the Plan's other systems. In terms of the role of the audit committee, with every one of their clients, they request the opportunity to meet with the board to go over things that are coming up during the audit. They want to make sure the Plan is fully up to speed on anything that is coming up. Mr. Waite stated this is a big part of their added value services -- meeting and being able to explain what is going on with the audit. He noted that Sarbanes Oxley has other requirements and if the Committee wanted another auditing firm to come in and do the internal control reviews and a different one to do the actual audit and sign off on management's practices, these are all covered under their audit and in his opinion it would be duplication of effort. He stated he feels Sarbanes Oxley has gone a little overboard in trying to address some of the problems on Wall Street.

Ron Vazquez asked them to elaborate on why Miller, Kaplan, Arase & Co. should be selected. Ms. Bolsky replied they feel their experience and efficiency in employee benefit plan audits makes them an excellent choice because it minimizes the disruption to the Plan's staff and they are in a position to really communicate about WPERP and how it compares to other plans. Mr. Waite added that because they specialize so much in this, their firm has always been in the forefront of working on issues that affect employee benefit plans and they have been speakers at many of these conferences. He stated he has served as the chairman of the Accountants Committee for some period of time and they now have another partner on this committee. He added that this is their livelihood and they devote a lot of time and effort in making sure they have the resources to really do a good job and they have developed a lot of specializations to go along with their standard auditing services.

Mr. Canzano thanked the representatives from Miller, Kaplan, Arase & Co. and they left the table.

Mr. Canzano asked how the Committee wanted to proceed with the evaluations. Mr. Moore stated it should be done on a comparative basis, taking each scoring criteria one at a time rather than just talking about one firm across the board where you are not really comparing them. Mr. Canzano concurred clarifying that they would compare each weighting section at a time. Mr. Vazquez stated by going over the ratings of the four respondents at this time and coming out with a top choice, it would be on the record. Mr. Moore added by going on the record we are also announcing to any other firms who may bid on this the weaknesses and the strengths of those who already bid. Mr. Moore stated he did not feel comfortable at this time announcing the pros and cons of these respondents. Mr. Vazquez concurred adding that we should go with Mr. Moore's suggestion that each member of the Audit Committee take each respondent and judge them side-by-side, going point-by-point across as a method of comparison, keeping the individual results to themselves until they are through with the interview process. He asked Mr. Abarro when he thinks he would have the letter ready for the Committee to review that would go out to the four current firms and when would the re-advertisement of the RFP go out. Mr. Abarro stated he would start on the letter the next day and send the Committee something by Monday. Mr. Vazquez stated this was fine and inquired as to the process of extending the deadline of the RFP and how time consuming would this process be. Mr. Abarro stated that they will need to re-advertise the RFP to the same places and it would take one week. Mr. Moore stated that they could continue this process in two steps. The first would be to go ahead with the re-advertisement of the RFP with the reduced insurance rates, with a note stating that if firms are interested in bidding on the basis of the lowered insurance requirements, please notify WPERP. Mr. Moore stated the second step is, if others want to bid, how long do we give them to prepare the RFP. Mr. Abarro clarified that the Committee wants to first re-advertise noting that this had been advertised before. We would also place it on the website again with the statement that we have changed the insurance requirements only and ask if they are interested in submitting the response please contact the Retirement Office. Mr. Abarro added that they would also note that they do no have to complete the whole response to the RFP at this point. Mr. Wilkinson stated that this would take care of the requirements to deal with everyone on an open basis. He added that everyone who was interested and did respond still did not comply completely with the insurance requirements and we may have no more respondents. Mr. Vazquez stated that it should be stated that if you are interested in submitting a response based on this change in requirements, please notify (name) by (date) that you plan to submit a response. Mr. Canzano added that since we gave the first respondents three weeks to respond we should spell this out and add, if you are interested once you submit your name, you will be given three weeks to respond.

Mr. Canzano adjourned the meeting at 4:40 pm.

EUGENE CANZANO
Chairperson

SANGEETA BHATIA
Secretary

IRENE COLÓN
Recording Secretary